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Date: March 8, 2007
Reference No.:
Circular Letter No.: 200-013-07
Distribution: VII
Special:

Circular Letter

TO: All PEMHCA Participating Employers

SUBJECT: Implementation of the California Employers' Retiree Benefit Trust Fund (CERBT) Program

The California Public Employees' Retirement System (CalPERS) has created a new trust fund that allows public employers that contract with CalPERS for employee health benefits to pre-fund the future cost of their retiree health insurance benefits and other post-employment benefits (OPEB) for their employees or retirees covered under PEMHCA. The effective date of the new trust fund was March 1, 2007.

The California Employers' Retiree Benefit Trust Fund, the pre-funding plan, allows participating employers to make regular periodic contributions into the trust fund. In the future, participating employers will be able to use investment earnings to pay for retiree health benefits, similar to the CalPERS pension plan in which three out of four dollars paid for retirement benefits come from investment earnings instead of current taxpayer dollars and employer contributions.

In addition to health insurance, other post-employment benefits can include employer paid dental, vision, hearing, and other health-related benefits. They can also include employer paid life, disability, and long-term care insurance.

With pre-funding, employers make periodic payments into the trust fund to partially or completely fund future OPEB obligations, which produces many benefits:

- Earnings from trust fund investments reduce employer costs
- Employer investment rate assumptions, known as discount rate assumptions, will be higher, reducing annual expenses and the unfunded liability for OPEB costs
- Prevents an employer's OPEB obligation from becoming a significant liability on balance sheets
- Lower unfunded liability may result in a higher bond rating
- Improves financial security for active workers and retirees

To participate in the California Employers' Retiree Benefit Trust Fund, employers must take the following steps:

- Certify that their agency is eligible under applicable laws and regulations
- Obtain an actuarial valuation prepared in accordance with CalPERS guidelines
- Have the agency's governing body adopt the CalPERS agreement to pre-fund OPEB costs
- Submit an original signed agreement, actuarial valuation report, certification that the actuarial valuation satisfies CalPERS requirements, and a summary of actuarial information on a diskette or CD to CalPERS for approval
- Submit a Delegation of Authority to Request Disbursement form

Please visit the *California Employers' Retiree Benefit Trust Fund* link on the CalPERS Web site at www.calpers.ca.gov for detailed information and the necessary forms or contact the CalPERS Employer Contact Center at **888 CalPERS** (or **888-225-7377**).

We recognize that some employers, and their actuaries, may require additional information regarding the CalPERS actuarial assumptions and certification requirements. We strongly encourage you to contact your CalPERS actuary through the Employer Contact Center to clarify any technical issues.

At the present time, only employers who currently contract with CalPERS for employee health benefits can take advantage of this program. CalPERS is actively engaged in discussions with the Governor's Office, legislature, and other interested parties, to develop legislation to provide additional statutory authority to CalPERS to allow all public employers in California to participate in the trust fund. As this process moves forward, CalPERS will keep you informed of the progress.

To discuss this further with your CalPERS actuary, please contact the CalPERS Employer Contact Center at **888 CalPERS** (or **888-225-7377**).



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